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What is Fair? A Study of Some Problems of Public Utility Regulation. By WILLIAM G. RAYMOND. New York, John Wiley and Sons, Inc., 1918.—xiii, 172 pp.

The author of this little book is a civil engineer of eminence and Dean of the College of Applied Science in the State University of Iowa. From his experience as an engineer he makes a contribution to our understanding of some of the more fundamental of the problems of utility regulation, problems which call for the combined wisdom of engineer, business man, lawyer and economist. Some of the phraseology suggests too much reliance on the author's " intuitive sense of fairness and justice" (preface, page viii), but most of his concrete conclusions are supported by objective rather than subjective reasoning.

The problems of utility regulation fall under two main heads: first, the proportions in which the various classes of patrons shall contribute to the company's total revenue; and secondly, the size of that total revenue. Under the first head, according to the author, " a fundamental principle would seem to be that the basis of charge must be the cost of service" (page 58). Charges for gas, water or electric power, he tells us, may be divided into four elements: (1) peak load costs, (2) consumer costs, (3) output costs and (4) fixed charges, less the part of this item included in peak load costs (page 71). The first three of these elements seem to constitute the separable or additional costs of rendering service to each customer—the costs which the company would save if that customer did not have to be served. The fourth element, on the other hand, is a cost incurred by the company on behalf of all the customers, but a cost no specific portion of which can be said to be caused by any one customer or class of customers. It would appear to the reviewer that once the first three elements are ascertained, the " fundamental principle" of the cost-of-service basis is incapable of further application. When each customer has paid as much of these three elements of cost as has been incurred in his behalf, it is impossible to determine what share of the remaining costs has been incurred for him. The apportionment of the fixed charges (other than the peak load costs) becomes a matter of policy rather than of analysis. Professor Raymond thinks that they "should probably vary with the sum of the other three costs", unless a simpler division may be rendered desirable " in the interest of simple publicity and bookkeeping." He is not under the illusion that this is a division on the cost basis, for he supports it for a different reason—namely, " on the theory that those who cause the greatest expense receive the greatest value and have the largest interest in the overhead of the property" (pages 71–72). But do they? The most we can say about the value received is that those who buy the most expensive service (expensive to the customers) receive the greatest (money) value; and the most expensive to the customer would not necessarily be the most expensive to the company if the joint costs were apportioned on some basis other than that suggested by the author—the very question at issue. Thus we get no light on the question of policy involved in the apportionment of the joint costs of the utilities mentioned. Perhaps the total of such costs relative to the other three classes is too insignificant to make this question of much consequence.

Though the author refers to the cost principle as "fundamental", he does not by any means reject the principle of charging what the traffic will bear. But he would apply that principle to public utilities "only when it will serve to lower the average cost of service to the public, or will develop a legitimate, natural, and desirable business that cannot be developed without some concession in rates from the average of its class." On the other hand,

> For a business so varied as railroad service in which the cost of a particular service cannot be determined, what the traffic will bear is the rational basis for a tentative rate design. If it is found to yield more than is judged to be a fair return . . . a general scaling of rates may be ordered, or certain necessaries of all people may be selected for lower rates to reduce the earnings to the proper fair return [pages 79–80].

Here again we are led to the threshold of a series of questions of general public policy which could not be treated in a book of this size concerned primarily with questions of interest to the engineer.

In treating the problems which fall under the other main head—the problems, that is, concerning the total return to which the company shall be entitled—Professor Raymond's discussion is particularly helpful. The precise basis for regulation ought to be specified in the company's charter (page 26). When regulation

> is first undertaken for an old property, the value acquired to the date of action should be allowed, and a method of regulation, automatic so far as possible in its action, should be adopted for the future. For a new company the same procedure should be had, but here the return base is the fair and reasonable sacrifice of the owner in creating the property [pages 162–163].

The value which the author would allow for the old company is the market value of the entire business, obtained by capitalizing the earnings. This value, he recognizes, may exceed what the courts have laid down as the minimum. Needless to say, its amount would not have to be measured; all that would be necessary in order to maintain it would be to avoid reducing the net earnings. In an expanding business, however, as the author points out, the net earnings can be maintained even when rates are reduced, for in such a business " earnings are normally increasing under present rates for service" (page 161).

Though the author would allow an old company not previously regulated to maintain its value, the " return base " for new companies is not to be confused with value; for that reason objection is quite properly made to the use of the term " fair value " by the courts (page 147). Upon this return base

> there must be a minimum rate for lean years and a maximum rate for fat years, any return between the two being considered fair; any return below the minimum being too low and calling for a larger return later or an addition to capital, and any return above the maximum being unreasonably large and one that calls for some adjustment or crediting of the surplus to the public [page 167].

This suggestion for the systematic addition of deficits to the return base and for the systematic deduction of surpluses therefrom is of vital import for the successful working of automatic regulation.

Having determined the return base, the rate of return to be allowed on it is called by the author "the wage of the money ". In addition to this return he would allow a " wage for service " (page 38). The latter may, " for lack of a better unit of measurement ", be measured " as a percentage of the invested capital. It would seem to be much better to measure the profit as a percentage of the business done, if some good way could be found to discourage the high cost of service . . . and to put a premium on low cost of service " (pages 38–39). On page 117 he gives a formula which would result in "a profit rate for service that grows less as the business (cost) is larger, though the gross money profit grows with the growth of business." A value may result which exceeds the cost (or the " return base ") ; and it is to this excess of value over cost that the author seems to refer when he speaks of a remainder which " is called, by some people, water, and by others, speculative value, and by others, promotion cost, and by economists, surplus " (page 36). A suggestion is made for differentiating in the security issues between this surplus and the cost incurred (page 37).

The reviewer would venture one criticism on the allowance of this "wage for service". The object of the allowance is solely to furnish an incentive to the management to be on the alert to improve the service or to lower the costs to the public. The management is already being paid, presumably, for its routine work, in the form of salaries. On Professor Raymond's plan, it is true that unusual alertness would increase the return on the stock; but it is equally true that under some circumstances this extra "wage for service" might result even with routine or inefficient management; the monopoly power might well be so great that even the poorest management could earn more than the normal "wage of the money" if permitted by the regulating power to do so. To avoid compelling the public to pay a surplus for anything except unusual efficiency, it would seem better to determine the "wage for service" not by a general formula applicable to all utilities, but by a separate consideration of each plant, subject to periodical revision. Some rough earmark of normal efficiency could be agreed upon, perhaps a given rate of charge for the service; and a surplus return could be allowed only when accompanied by previously determined improvements upon this "normal" efficiency. Such was roughly the plan agreed upon in the case of the gas company in Boston, where, by a sliding scale, dividend rates higher than "standard" are permitted only when the price of gas falls below the "standard" price.

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American Problems of Reconstruction: A National Symposium. Edited by Elisha M. Friedman. New York, E. P. Dutton and Company, 1918.—xxvi, 471 pp.

One reads a book like this with profound regret that the penny pamphlet is not in vogue in America. In England all of the more pretentious articles included in this symposium would have been available for popular distribution at a nominal charge, available as individual studies and not lumped into a bulky, expensive and, therefore, little-read tome. The regret is the greater, because in a nation of economic illiterates the kind of simple, painstaking exposition which we get in the articles by Senator Owen, Henry E. Cooper, Professor Fisher and Professor Seligman is invaluable. Their statements should be on editors' desks; they should be written about, explained and discussed. How else can we get from an electorate, blissfully ignorant of triangulation, fluctuations in the value of the pound and the urgent need for popularizing acceptances, any supporting judgment for a national fiscal policy which has the public interest at heart?